

Announcement of Additional information of Summary of Consolidated Financial Results for the Three Months Ended March 31, 2018

LINE Corporation (Headquarters: Shinjuku-ku, Tokyo, Japan; Representative Director and President: Takeshi Idezawa) announces additional information for the "Summary of Consolidated Financial Results for the Three Months Ended March 31, 2018" announced on April 25, 2018, as follows.

The new information is in the following:

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The attachment is a full version of the financial results announcement for the fiscal year and the additional information is not included on the pages other than those mentioned above.

This is an English translation of the original Japanese-language document. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail. All references to the “Company,” “we,” “us” or “our” shall mean LINE Corporation and, unless the context otherwise requires, its consolidated subsidiaries.

April 25, 2018

**LINE Corporation Announces Summary of
Consolidated Financial Results
for the Three Months Ended March 31, 2018**
<Prepared in Accordance with the International Financial Reporting Standards (“IFRS”)
as issued by the International Accounting Standards Board (“IASB”)>

TOKYO -- LINE Corporation (NYSE: LN) (TOKYO: 3938) announces the summary of its consolidated financial results for the three months ended March 31, 2018.

Company name: **LINE Corporation** (Stock Code: 3938) (the “Company”)
 Stock exchange on which the shares are listed: Tokyo Stock Exchange
 URL: <http://linecorp.com/>
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 Filing date of quarterly securities report: May 10, 2018
 Payment date of dividends: –
 Supplemental materials prepared on quarterly financial results: Yes
 Financial results conference scheduled: Yes (for institutional investors and analysts)

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

1. Consolidated financial results for the first three months of 2018 (from January 1, 2018 to March 31, 2018)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenues		Profit from operating activities		Profit before income taxes		Profit for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the three months ended								
March 31, 2018	48,736	25.2	1,246	(69.0)	(138)	–	(1,770)	–
March 31, 2017	38,916	16.3	4,025	(24.6)	3,566	(13.9)	1,632	–

	Profit attributable to the shareholders of the Company		Comprehensive income for the period		Basic earnings per share	Diluted earnings per share
For the three months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
March 31, 2018	(1,383)	–	(4,431)	–	(5.82)	(5.82)
March 31, 2017	1,437	–	2,799	–	6.58	6.07

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to the shareholders of the Company	Ratio of equity attributable to the shareholders of the Company to total assets
As of	Millions of yen	Millions of yen	Millions of yen	%
March 31, 2018	297,935	185,165	181,095	60.8
December 31, 2017	303,439	189,977	185,075	61.0

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
For the year ended December 31, 2017	–	0.00	–	0.00	0.00
For the year ending December 31, 2018	–				
For the year ending December 31, 2018 (Forecast)		–	–	–	–

Note: Revisions to the cash dividends forecasts most recently announced: None
Concerning cash dividends forecasts for the year ending December 31, 2018, it has not yet made a decision.

3. Consolidated earnings forecasts for 2018 (from January 1, 2018 to December 31, 2018)

Amid rapid international and domestic changes, there is a level of uncertainty within the mobile applications market for smartphones and other mobile devices, the main business of the Company and its subsidiaries (collectively, the “Group”). As the state of this market significantly impacts the Group’s financial results, it is difficult to formulate a precise earnings forecast. Furthermore, as the Company’s shares are listed on the New York Stock Exchange as well as the Tokyo Stock Exchange, we are also carefully considering risks relating to U.S. securities regulations. Accordingly, an announcement concerning earnings forecasts is not made at this time.

Notes

- (1) Changes in significant subsidiaries during the current period (changes in specified subsidiaries resulting in change in scope of consolidation): None
- (2) Changes in accounting policies and estimates
 - a. Changes in accounting policies due to revisions in accounting standards under IFRS: Yes
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
- (3) Number of shares issued and outstanding (common stock)
 - a. Total number of common shares issued and outstanding at the end of the period (including treasury shares)

As of March 31, 2018	238,785,310 shares
As of December 31, 2017	238,496,810 shares
 - b. Number of treasury shares at the end of the period

As of March 31, 2018	1,007,710 shares
As of December 31, 2017	1,007,710 shares

c. Average number of common shares outstanding during the period (cumulative from the beginning of the fiscal year)	
For the three months ended March 31, 2018	237,623,721 shares
For the three months ended March 31, 2017	218,411,890 shares

* Information regarding the quarterly review procedures

This summary quarterly financial results report is exempt from the quarterly consolidated financial statements review procedures in accordance with the Financial Instruments and Exchange Act.

Additional time is needed to prepare the notes regarding IFRS 15, which was adopted in FY 2018. The Company intends to disclose the Quarterly Consolidated Financial Statements and Significant Notes as soon as they have been prepared. Supplementary information to this earnings release, including the Company's results by segment, will be available today at the following IR website: <https://linecorp.com/ja/ir/top>.

1 Interim condensed consolidated financial statements

(1) Interim Condensed Consolidated Statement of Financial Position - Unaudited

	December 31, 2017	(In millions of yen) March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	123,606	107,266
Trade and other receivables	42,892	38,633
Other financial assets, current	13,258	17,471
Contract assets	-	307
Inventories	3,455	2,874
Other current assets	7,438	8,213
Total current assets	190,649	174,764
Non-current assets		
Property and equipment	15,125	18,025
Goodwill	16,767	16,890
Other intangible assets	6,486	6,179
Investments in associates and joint ventures	24,844	30,084
Other financial assets, non-current	32,084	34,703
Deferred tax assets	16,492	16,435
Other non-current assets	992	855
Total non-current assets	112,790	123,171
Total assets	303,439	297,935
Liabilities		
Current liabilities		
Trade and other payables	28,810	27,702
Other financial liabilities, current	28,003	31,933
Accrued expenses	12,087	11,089
Income tax payables	2,365	1,263
Contract liabilities	-	24,471
Advances received	17,975	-
Deferred revenue	9,246	-
Provisions, current	991	2,159
Other current liabilities	1,940	1,870
Total current liabilities	101,417	100,487
Non-current liabilities		
Other financial liabilities, non-current	602	350
Deferred tax liabilities	1,573	1,799
Provisions, non-current	3,060	3,073
Post-employment benefits	6,162	6,211
Other non-current liabilities	648	850
Total non-current liabilities	12,045	12,283
Total liabilities	113,462	112,770
Shareholders' equity		
Share capital	92,369	92,729
Share premium	93,560	94,057
Treasury shares	(4,000)	(4,000)
Accumulated deficit	(4,294)	(5,500)
Accumulated other comprehensive income	7,440	3,809
Equity attributable to the shareholders of the Company	185,075	181,095
Non-controlling interests	4,902	4,070
Total shareholders' equity	189,977	185,165
Total liabilities and shareholders' equity	303,439	297,935

(2) Interim Condensed Consolidated Statement of Profit or Loss - Unaudited

	<i>(In millions of yen)</i>	
	For the three-month period ended March 31,	
	2017	2018
Revenues and other operating income:		
Revenues.....	38,916	48,736
Other operating income.....	330	1,473
Total revenues and other operating income.....	39,246	50,209
Operating expenses:		
Payment processing and licensing expenses.....	(7,684)	(7,306)
Sales commission expenses.....	(138)	(3,011)
Employee compensation expenses.....	(9,718)	(13,493)
Marketing expenses.....	(4,026)	(3,931)
Infrastructure and communication expenses.....	(2,142)	(2,601)
Subcontract and other service expenses.....	(4,815)	(7,937)
Depreciation and amortization expenses.....	(1,476)	(2,329)
Other operating expenses.....	(5,222)	(8,355)
Total operating expenses.....	(35,221)	(48,963)
Profit from operating activities.....	4,025	1,246
Finance income.....	25	99
Finance costs.....	(6)	(8)
Share of loss of associates and joint ventures.....	(794)	(1,804)
Loss on foreign currency transactions, net.....	(362)	(564)
Other non-operating income.....	678	976
Other non-operating expenses.....	—	(83)
Profit/(loss) before tax from continuing operations.....	3,566	(138)
Income tax expenses.....	(1,931)	(1,636)
Profit/(loss) for the period from continuing operations.....	1,635	(1,774)
(Loss)/profit from discontinued operations, net of tax.....	(3)	4
Profit/(loss) for the period.....	1,632	(1,770)
Attributable to:		
The shareholders of the Company.....	1,437	(1,383)
Non-controlling interests.....	195	(387)
		<i>(In yen)</i>
Earnings per share		
Basic profit/(loss) for the period attributable to the shareholders of the Company.....	6.58	(5.82)
Diluted profit/(loss) for the period attributable to the shareholders of the Company.....	6.07	(5.82)
Earnings per share from continuing operations		
Basic profit/(loss) from continuing operations attributable to the shareholders of the Company.....	6.60	(5.84)
Diluted profit/(loss) from continuing operations attributable to the shareholders of the Company.....	6.08	(5.84)
Earnings per share from discontinued operations		
Basic (loss)/profit from discontinued operations attributable to the shareholders of the Company.....	(0.02)	0.02
Diluted (loss)/profit from discontinued operations attributable to the shareholders of the Company.....	(0.01)	0.02

(3) Interim Condensed Consolidated Statement of Comprehensive Income - Unaudited

	<i>(In millions of yen)</i>	
	For the three-month period ended March 31,	
	2017	2018
Profit/(loss) for the period	1,632	(1,770)
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net changes in fair value of equity instruments at FVOCI	—	400
Income tax relating to items that will not be reclassified to profit or loss	—	(74)
Items that may be reclassified to profit or loss:		
Available-for-sale financial assets:		
Net changes in fair value.....	1,241	—
Reclassification to profit or loss	(544)	—
Debt instruments at FVOCI		
Net changes in fair value	—	4
Exchange differences on translation of foreign operations:		
Gain/(loss) arising during the period	698	(2,852)
Reclassification to profit or loss	-	(107)
Proportionate share of other comprehensive income of associates and joint ventures.....	(10)	11
Reclassification to profit or loss	-	(8)
Income tax relating to items that may be reclassified subsequently to profit or loss.....	(218)	(35)
Total other comprehensive income for the period, net of tax	1,167	(2,661)
Total comprehensive income for the period, net of tax	2,799	(4,431)
Attributable to:		
The shareholders of the Company	2,604	(3,756)
Non-controlling interests	195	(675)

(4) Interim Condensed Consolidated Statement of Change in Equity - Unaudited

(In millions of yen)

	Equity attributable to the shareholders of the Company									
	Share capital	Share premium	Treasury shares	Accumulated deficit	Accumulated other comprehensive income			Total	Non-controlling interests	Total shareholders' equity
					Foreign currency translation reserve	Available-for-sale reserve	Defined benefit plan reserve			
Balance at January 1, 2017	77,856	91,208	—	(12,381)	(174)	5,649	(1,324)	160,834	189	161,023
Comprehensive income										
Profit for the period	—	—	—	1,437	—	—	—	1,437	195	1,632
Other comprehensive income	—	—	—	—	699	468	—	1,167	0	1,167
Total comprehensive income for the period	—	—	—	1,437	699	468	—	2,604	195	2,799
Recognition of share-based payments	—	748	—	—	—	—	—	748	—	748
Forfeiture of stock options	—	(8)	—	8	—	—	—	—	—	—
Exercise of stock options	1,497	(461)	—	—	—	—	—	1,036	—	1,036
Acquisition of non-controlling interests	—	(46)	—	—	2	—	—	(44)	15	(29)
Balance at March 31, 2017	<u>79,353</u>	<u>91,441</u>	<u>—</u>	<u>(10,936)</u>	<u>527</u>	<u>6,117</u>	<u>(1,324)</u>	<u>165,178</u>	<u>399</u>	<u>165,577</u>

(In millions of yen)

	Equity attributable to the shareholders of the Company									
	Share capital	Share premium	Treasury shares	Accumulated deficit	Accumulated other comprehensive income			Total	Non-controlling interests	Total shareholders' equity
					Foreign currency translation reserve	Financial assets at FVOCI	Defined benefit plan reserve			
Balance at January 1, 2018	92,369	93,560	(4,000)	(4,294)	3,158	3,928	354	185,075	4,902	189,977
Adjustment on adoption of new accounting standards	—	—	—	177	—	(1,258)	—	(1,081)	(85)	(1,166)
Balance at January 1, 2018 (restated)	92,369	93,560	(4,000)	(4,117)	3,158	2,670	354	183,994	4,817	188,811
Comprehensive income										
Loss for the period	—	—	—	(1,383)	—	—	—	(1,383)	(387)	(1,770)
Other comprehensive income	—	—	—	—	(2,714)	341	—	(2,373)	(288)	(2,661)
Total comprehensive income for the period	—	—	—	(1,383)	(2,714)	341	—	(3,756)	(675)	(4,431)
Recognition of share-based payments	—	586	—	—	—	—	—	586	—	586
Exercise of stock options	360	(89)	—	—	—	—	—	271	—	271
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	(72)	(72)
Balance at March 31, 2018	<u>92,729</u>	<u>94,057</u>	<u>(4,000)</u>	<u>(5,500)</u>	<u>444</u>	<u>3,011</u>	<u>354</u>	<u>181,095</u>	<u>4,070</u>	<u>185,165</u>

(5) Notes to Interim Condensed Consolidated Financial Statements – Unaudited

Notes for change in significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of January 1, 2018.

The adoption of new and revised IFRS issued by the International Accounting Standards Board that are mandatorily effective for an accounting period that begins on or after January 1, 2018 had no impact on the Group's unaudited interim condensed consolidated financial statements as of and for the three-month periods ended March 31, 2017 and 2018 and annual consolidated financial statements as of December 31, 2017, except for the following standards.

1. IFRS15 Revenue from Contracts with Customers

The IASB issued IFRS 15 *Revenue from Contracts with Customers* for recognizing revenue. IFRS 15 establishes a five-step model that will apply to all revenue arising from contracts with customers, regardless of the type of transaction or industry, with limited exceptions.

The Group recognizes revenue associated with communication and content sales and with advertising services by reference to the stage of completion. The Group has concluded that the current methods of revenue recognition and measurement are in accordance with IFRS 15, with the exception of the following services.

The Group has adopted IFRS 15 from the fiscal year 2018. The Group has used the modified retrospective method which is to record cumulative amount of the impact at the beginning balance of the retained earnings upon adoption.

(1) LINE Stickers and Creator Stickers

The new standard resulted in a change to the timing of revenue recognition, whereby revenue is recognized over an estimated usage period on a straight-line method rather than the previous method, which was over time but on an accelerated basis.

Under the previous standard, the Group determined that the measuring method which best depicts the progress towards satisfaction of performance based on a contract was the users' usage pattern of Stickers which represented the consumption of the user's benefits, and recognized revenue during the earlier part of the estimated usage period.

On the other hand, the concept of a service of standing ready is clarified under IFRS 15. IFRS 15 clarified the service of standing ready as to provide services or to make services available to the users for their use as and when the users decide. The Group determines that LINE Stickers and Creator Stickers services which the Group provides to its users are similar to the concept of a service of standing ready. The performance obligation of the Group to the customers which are the users who purchased Stickers is to make the Stickers and Creator Stickers available to the users for their use at any given time. Accordingly, the users receive the benefit of the services and consume such services as the Group makes LINE Stickers and Creator Stickers available to the users for their use. Therefore, the Group determines that its performance obligation is evenly satisfied over time and assessed that a straight-line method over an estimated usage period is the best method to measure the progress towards complete satisfaction of the performance obligation. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 15 million yen, and the operating profit from operating activities increased by 35 million yen for the three-month ended March 31, 2018.

(2) LINE Sponsored Stickers

The new standard resulted in a change to the timing of revenue recognition, whereby revenue is recognized over a contract period on a straight-line method rather than the previous method, which was over time but on an accelerated basis.

Under the previous standard, the Group determined that the measuring method which best depicts the progress towards satisfaction of performance based on a contract was the users' usage pattern of Sponsors Stickers which represent its progress of rendering the services, and recognized revenue based on the users usage pattern of Sponsors Stickers which was weighted towards the earlier part of the period.

On the other hand, under IFRS 15, the definition of a "customer" is clarified and it is defined as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration." Also, the contract with "customers" is within the scope of IFRS 15, and IFRS 15 requires to measure the progress towards complete satisfaction of a performance obligation to "customers."

In the LINE Sponsored Stickers contract, only an advertiser is obligated to pay consideration for Sponsored Stickers service to the Group, and the users who use Sponsored Stickers do not pay any consideration to the Group directly or indirectly. Therefore, the Group determines the advertisers as "customers." The performance obligation of the Group to the advertisers is to make the Sponsored Stickers available to the users for their use at any time over a contract period. Accordingly, the Group has assessed that a straight-line method over a contract period is the best method to measure the progress towards complete satisfaction of the performance obligation. As a result, compared to the previous method, the amount of revenue recognized by the Group increased by 125 million yen, and the operating profit from operating activities increased by 114

LINE Sponsored Stickers	(760)
LINE Point Ad	667
Other	(63)
Total	<u>(1,123)</u>

The adjustments made to line items presented on the financial statements due to the change from IAS 18 Revenue and other standards applied previously (collectively, the IAS 18 and other) to IFRS 15 are as follows. Reclassifications are made to reflect the terms used under IFRS 15. Certain amounts previously presented in trade and other receivables related to advertising services are reclassified into contract assets, while certain amounts previously presented in advances received arising from LINE Points and in deferred revenue associated with LINE stickers or advertising services are reclassified into other financial liabilities, current and contract liabilities.

(In millions of yen)

	January 1, 2018 (under IAS 18 and	Reclassification	Remeasurement	January 1, 2018 (under IFRS 15)
	other)			
Trade and other receivables	42,892	(437)	(792)	41,663
Contract assets	—	437	—	437
Other current assets	7,438	—	1,052	8,490
Deferred tax assets	16,492	—	384	16,876
Other financial liabilities, current	28,003	4,633	—	32,636
Contract liabilities	—	22,588	1,391	23,979
Advances received	17,975	(17,975)	—	—
Deferred revenue	9,246	(9,246)	—	—
Provision, current	991	—	472	1,463
Accumulated deficit	(4,294)	—	(1,123)	(5,417)
Accumulated other comprehensive income	7,440	—	(8)	7,432
Non-controlling interests	4,902	—	(89)	4,813

(In millions of yen)

	March 31, 2018 (under IAS 18 and other)	Reclassification	Remeasurement	March 31, 2018 (under IFRS 15)
Trade and other receivables	39,913	(307)	(973)	38,633
Contract assets	—	307	—	307
Other current assets	7,048	—	1,165	8,213
Deferred tax assets	16,055	—	380	16,435
Other financial liabilities, current	28,649	3,284	—	31,933
Contract liabilities	—	23,374	1,097	24,471
Advances received	17,286	(17,286)	—	—
Deferred revenue	9,372	(9,372)	—	—
Provision, current	1,637	—	522	2,159
Accumulated deficit	(4,444)	—	(1,056)	(5,500)
Accumulated other comprehensive income	3,807	—	2	3,809
Non-controlling interests	4,061	—	9	4,070

For the three-month periods ended March 31

	2018 (under IAS 18 and other)	Reclassification	Remeasurement	<i>(In millions of yen)</i>
				2018 (under IFRS 15)
Revenue and other operating income				
Revenues	46,460	—	2,276	48,736
Other operating income	1,473	—	—	1,473
Revenue and other operating income total	47,933	—	2,276	50,209
Operating expenses				
Payment processing and licensing expenses	(7,316)	—	10	(7,306)
Sales commission expenses	(914)	—	(2,097)	(3,011)
Employee compensation expenses	(13,493)	—	—	(13,493)
Marketing expenses	(3,931)	—	—	(3,931)
Infrastructure and communication expenses	(2,601)	—	—	(2,601)
Subcontract and other service expenses	(7,937)	—	—	(7,937)
Depreciation and amortization expenses	(2,329)	—	—	(2,329)
Other operating expenses	(8,305)	—	(50)	(8,355)
Operating expenses total	(46,826)	—	(2,137)	(48,963)
Profit from operating activities	1,107	—	139	1,246
Loss before tax from continuing operations	(277)	—	139	(138)
Income tax expenses	(1,603)	—	(33)	(1,636)
Loss for the period from continuing operations	(1,880)	—	106	(1,774)
Loss for the period	(1,876)	—	106	(1,770)
Attributable to:				
The shareholders of the Company	(1,480)	—	97	(1,383)
Non-controlling interests	(396)	—	9	(387)
Earnings per share				<i>(In yen)</i>
Basic loss for the period attributable to the shareholders of the Company	(6.22)	—	0.40	(5.82)
Diluted loss for the period attributable to the shareholders of the Company	(6.22)	—	0.40	(5.82)
Earnings per share from continuing operations				

Basic loss from continuing operations attributable to the shareholders of the Company	(6.24)	—	0.40	(5.84)
Diluted loss from continuing operations attributable to the shareholders of the Company	(6.24)	—	0.40	(5.84)

Under the previous standard, the Group recognized considerations received from advertisers as advertising revenue after subtracting the share of advertising agencies. However, under IFRS 15, the Group recognizes such revenue by the gross recognition where the Group recognizes considerations received from advertisers including the portion for the services provided by the advertising agencies. As a result, the amount of expenses which were to be paid to the advertising agencies increased and became material. Therefore, the “sales commission expenses” which were included in the “authentication and other service expenses” are presented separately in the Interim Condensed Consolidated Financial Statement of Profit or Loss from the three-month period ended March 31, 2018, and the remaining “authentication and other service expenses” is now presented as “subcontract and other service expenses” as the materiality of authentication expenses decreased. The change was applied to the Interim Condensed Consolidated Financial Statement of Profit or Loss for the three-month period ended March 31, 2017.

2. IFRS 9 Financial Instruments

The IASB issued the final version of IFRS 9 Financial Instruments which sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is the new standard for the financial reporting of financial instruments that is principles-based and brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project. IFRS 9 is built on a single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics including new impairment requirements that are based on a more forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. The Group has applied the following accounting policies in accordance with IFRS 9 commencing on January 1, 2018.

(1) Classification of financial assets

Based on the Group's business model for managing the financial assets and the characteristics of contractual cash flow of the financial assets, the Group classifies the financial assets by following categories. Gains and losses arising from assets measured at fair value are either recorded in profit or loss or other comprehensive income, depending on the Group's intention. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

i. Financial assets as amortized cost

Financial assets measured at amortized cost are debt instruments held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

ii. Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are debt instruments whose contractual cash flows represent solely payments of principal and interest on the principal amount outstanding and which are held within a business model both to collect contractual cash flows and sell and equity instruments which the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss are the financial assets that are not classified as financial asset at amortized cost or financial assets at fair value through other comprehensive income.

(2) Measurement of financial assets

Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement

Debt instruments:

i. Amortized cost

Financial assets at amortized cost are measured at amortized cost using the effective interest method, and related interest income is included in finance income. When the asset is derecognized or impaired, a gain or loss on a debt investment is recognized in profit or loss.

ii. Fair value through other comprehensive income (FVOCI)

Subsequent to initial recognition, financial assets are measured at fair value and gains or losses arising from changes in the fair value are recorded in other comprehensive income, except for the recognition of interest revenue, foreign exchange gains or losses and expected credit losses which are recognized in profit or loss. When debt investments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

iii. Fair value through profit or loss

Subsequent to initial recognition, financial assets are measured at fair value. A gain or loss on debt instruments which is not part of a hedging relationship is recognized in profit or loss.

Equity instruments:

Where the Group has irrevocably elected to designate equity instruments as financial assets measured at fair value through other comprehensive income, movements in the carrying amount by fair value measurement are recognized as other comprehensive income. There is no subsequent reclassification of cumulative gains or losses previously recognized in other comprehensive income to profit or loss. Where the Group has not elected to designate equity instruments as financial assets measured at fair value through other comprehensive income, movements in the carrying amount by fair value measurement are recognized in profit or loss.

Dividends from equity investments are recognized in profit or loss as “Other operating income” when the Group’s right to receive payments is established.

(3) Impairment of financial assets

The Group assesses the expected credit losses associated with its assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables only, the Group applies the simplified approach permitted by IFRS9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Group has applied IFRS 9 retrospectively and has determined not to restate the comparative information for the period beginning January 1, 2017. As a result, the comparative information is prepared based on the Group’s previous accounting policies. On January 1, 2018, the Group has assessed which business models to apply to its financial assets and liabilities and classified such financial assets and liabilities in to appropriate classification under IFRS 9. The impacts of these classifications are as follows.

(In millions of yen)

	Balance as of January 1, 2018 under IFRS 9					Impacts by adoption of IFRS 9		
	Balance at January 1, 2018 under IAS 39	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at FVOCI	Financial assets/liabilities at amortized cost	Total financial assets/liabilities	Fair value measurement at January 1, 2018	Provision at January 1, 2018	Total impacts
Financial assets								
Trade and other receivables								
Loans and receivables	42,892	—	—	42,892	42,892	—	—	—
Total	42,892	—	—	42,892	42,892	—	—	—
Other financial assets, current								
Loans and receivables								
Time deposits	12,002	—	—	12,002	12,002	—	—	—
Short-term loans	206	—	—	206	206	—	—	—
Corporate bonds and other debt instruments	849	—	852	—	852	6	(3)	3
Available-for-sale financial assets	6	—	6	—	6	—	—	—
Office security deposits	195	—	—	195	195	—	—	—
Total	13,258	—	858	12,403	13,261	6	(3)	3
Other financial assets, non-current								
Held-to-maturity investments	280	—	—	280	280	—	—	—
Loans and receivables								
Corporate bonds and other debt instruments	7,986	28	7,997	—	8,025	52	(13)	39
Guarantee deposits	726	—	—	726	726	—	—	—
Office security deposits	5,709	—	—	5,709	5,709	—	—	—
Financial assets at fair value through profit or loss								
Conversion right and redemption right of preferred stock	1,862	1,862	—	—	1,862	—	—	—
Available-for-sale financial assets	15,388	5,262	10,126	—	15,388	—	—	—
Other	133	—	44	89	133	—	—	—
Total	32,084	7,152	18,167	6,804	32,123	52	(13)	39

(In millions of yen)

	Balance as of January 1, 2018 under IFRS 9				Impacts by adoption of IFRS 9			
	Balance at January 1, 2018 under IAS 39	Financial assets/liabilities at fair value through profit or loss	Financial assets/liabilities at FVOCI	Financial assets/liabilities at amortized cost	Total financial assets/liabilities	Fair value measurement at January 1, 2018	Provision at January 1, 2018	Total impacts
Financial liabilities								
Trade and other payables								
Financial liabilities measured at amortized cost		—	—	28,810	28,810	—	—	—
Total	28,810	—	—	28,810	28,810	—	—	—
Other financial liabilities, current								
Financial liabilities measured at amortized cost								
Deposits received	5,730	—	—	5,730	5,730	—	—	—
Short-term borrowings	22,224	—	—	22,224	22,224	—	—	—
Others	49	—	—	49	49	—	—	—
Total	28,003	—	—	28,003	28,003	—	—	—
Other financial liabilities non-current								
Financial liabilities measured at amortized cost								
Office security deposits received under sublease agreement	23	—	—	23	23	—	—	—
Others	93	—	—	93	93	—	—	—
Financial liabilities at fair value through profit or loss								
Put option liabilities	486	486	—	—	486	—	—	—
Total	602	486	—	116	602	—	—	—

Following are the impacts on accumulated deficit and accumulated other comprehensive income by classification and measurement of financial assets at January 1, 2018.

(In millions of yen)

	<u>Accumulated deficit</u>	<u>Financial assets at FVOCI</u>
Balance of accumulated deficit and accumulated OCI as of January 1, 2018 under IAS 39	(4,294)	3,928
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	316	(316)
Transfer of impairment losses arising from reclassification of available-for-sale financial assets to financial assets at FVOCI and recognized previously in profit or loss	1,000	(1,000)
Fair value measurement of financial assets classified from loans and receivables to financial assets at FVOCI as of January 1, 2018	—	42
Increase in provision for debt instruments at FVOCI	(16)	16
Adjustment to shareholders' equity from adoption of IFRS 9	1,300	(1,258)
Balance of accumulated deficit and accumulated OCI as of January 1, 2018 under IFRS 9	<u>(2,994)</u>	<u>2,670</u>

(1) Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss

The investments in private equity investment funds of 2,966 million yen and redeemable preferred stocks of unlisted companies of 2,296 million yen as of January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss as the cash flows from these investments did not represent solely payments of principal and interest on the principal amount outstanding and as the maturities of such investments were predetermined. Also, cumulative loss and its tax effects through fair value measurements of 259 million yen were reclassified from accumulated other comprehensive income to accumulated deficit.

(2) Reclassification from available-for-sale financial assets to financial assets at FVOCI

The investments in listed equity securities and private equity and other financial instruments of 9,728 million yen, investments in corporate bonds of 402 million yen, and investments in partnerships of 2 million yen as of January 1, 2018, were reclassified from available-for-sale financial assets to financial assets at FVOCI as the cash flows from these investments did not represent solely payments of principal and interest on the principal amount outstanding and as the Group has determined to measure such investments at FVOCI. Also, related cumulative impairment loss and its tax effects of 1,000 million yen were reclassified from accumulated deficit to accumulated other comprehensive income. The Group estimates a loss allowance based on 12 months expected credit losses on debt instruments which are measured at FVOCI as the Group has judged that the risks for such investments are low.

(3) Reclassification from loans and receivables to financial assets at measured at amortized cost

Time deposits of 12,002 million yen, loans of 206 million yen, guarantee deposits of 726 million yen and office security deposits of 5,709 million yen as of January 1, 2018 were reclassified from loans and receivables to financial assets at amortized cost as the cash flows from these assets represent solely payments of principal and interest on the principal amount outstanding and as the Group's business model is achieved by collecting contractual cash flows. The amounts of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

(4) Reclassification from loans and receivables to financial assets at FVOCI

Corporate bonds of 8,807 million yen as of January 1, 2018 were reclassified from loans and receivables to financial assets at FVOCI as the cash flows from these assets represent solely payments of principal and interest on the principal amount outstanding and as the Group's business model is achieved by both collecting contractual cash flows and selling of these financial assets for profit. Fair value gains and related tax effects of 42 million yen measured at January 1, 2018, were adjusted to the accumulated other comprehensive income. Also, expected credit losses of 16 million yen measured at January 1, 2018 were recognized as a loss allowance provision and

adjusted to accumulated other comprehensive income. The Group estimates a loss allowance based on 12 months expected credit losses on debt instruments which are measured at FVOCI as the Group has judged that the risks for such investments are low.

(5) Reclassification from loans and receivables to financial assets at fair value through profit or loss

A convertible bond of 28 million yen as of January 1, 2018, was reclassified from loans and receivables to financial assets at fair value through profit or loss as the cash flow did not represent solely payments of principal and interest on the principal amount outstanding and as the maturity was predetermined. There was no effect to accumulated deficit and accumulated other comprehensive income at January 1, 2018, due to the reclassification.

(6) Reclassification from held-to-maturity financial assets to financial assets at measured at amortized cost

Japanese government bonds of 280 million yen as of January 1, 2018, were reclassified from loans and receivables to financial assets at amortized cost as the cash flows from these financial assets represent solely payments of principal and interest on the principal amount outstanding and as the Group's business model is achieved by collecting contractual cash flows. The amounts of expected credit losses arising from those financial assets as of January 1, 2018, were deemed immaterial.

The group does not early adopt standards, interpretations and amendments which are issued but not yet effective.

Notes for segment information

The Group identifies operating segments based on the internal report regularly reviewed by the Group's Chief Operating Decision Maker to make decisions about resources to be allocated to segments and assess performance. An operating segment of the Group is a component for which discrete financial information is available. The Chief Operating Decision Maker has been identified as the Company's board of directors. No operating segments have been aggregated to form the reportable segments.

In 2018, the Group changed its operating segment from one component to two components as the budget has been prepared based on the Core business and Strategic business and as the Company's board of directors changed the unit of components to assess performance of the Group from a single segment to two segments, Core business segment and Strategic business segment.

Under the corporate strategy to allocate the resources generated from the Core business to the Strategic business, the Company's board of directors individually assesses the business performance of Core business based on the growth of revenue and profitability and of Strategic business based on profitability as well as important non-financial KPIs such as the expansion of user base.

(1) Description of Reportable Segments

The Group's reportable segments are as follows:

Core business segment	Core business segment mainly consists of Advertising service, communication and content. Advertising services mainly includes display advertising, accounts advertising, and portal advertising. Display advertising provides advertisements on services such as LINE NEWS. Account advertising mainly include LINE Official Accounts and Sponsored Stickers. Portal advertising mainly include advertisements on the services such as livedoor blog and NAVER Matome. Communication mainly includes LINE Stickers. Content mainly includes LINE Games. Core business segment includes other services such as LINE Part-time Job.
Strategic business segment	Strategic business segment consists of Fintech services such as LINE Pay service, and other commerce such as AI and LINE Friends services.

(2) Profit or Loss for the Group's operating segments

The Group's operating profit for each segment is prepared mainly by the same method as the preparation of consolidated financial statements, except certain items such as other operating income and share-based compensation expenses are included in corporate expenses and adjustments. Also, IT development expenses and indirect expenses such as department management fees are allocated based on the information such as the hours of service provided, the number of server infrastructures used to provide the service, or the percentage of revenues. As the Company's board of directors uses information after eliminating intercompany transactions for their performance assessment, there is no adjustments between segments.

From the fiscal year of 2018, the Group changed its operating segment into Core business segment and Strategic business segment, as the Company's board of directors assesses performance based on these components. From the fiscal year 2018, the Group monitors its profit and loss by segment. The profit and loss of each segment in fiscal year 2017 was prepared mainly based on the same method as in fiscal year 2018 where practicable and restated accordingly.

For the three-month period ended March 31, 2017

(In millions of yen)

	Reportable segments			Corporate expenses and adjustments ⁽¹⁾	Consolidated
	Core business	Strategic business	Total		
Revenue from external customers ⁽²⁾	35,690	3,215	38,905	11	38,916
Segment profit/(loss)	7,289	(2,676)	4,613	(588)	4,025
Depreciation and amortization expenses	1,327	149	1,476	—	1,476

⁽¹⁾ Corporate expenses and adjustments mainly include differences arising from separate exchange rates used in management accounting, other operating income and share-based compensation expenses.

⁽²⁾ Revenue from external customers for the three-month period ended March 31, 2017 is presented based on IAS 18.

For the three-month period ended March 31, 2018

(In millions of yen)

	Reportable segments			Corporate expenses and adjustments ⁽¹⁾	Consolidated
	Core business	Strategic business	Total		
Revenue from external customers	42,713	6,063	48,776	(40)	48,736
Segment profit/(loss)	8,038	(7,141)	897	349	1,246
Depreciation and amortization expenses	1,969	364	2,333	(4)	2,329

⁽¹⁾ Corporate expenses and adjustments mainly include differences arising from separate exchange rates used in management accounting, other operating income and share-based compensation expenses

The reconciliation of segment profit to profit/(loss) before tax from continuing operations is as follows:

	(In millions of yen)	
	2017	2018
Segment profit	4,025	1,246
Financial income	25	99
Financial costs	(6)	(8)
Share of loss of associates and joint ventures	(794)	(1,804)
Loss on foreign currency transactions, net	(362)	(564)
Other non-operating income	678	976
Other non-operating expenses	-	(83)
Profit/(loss) before tax from continuing operations	3,566	(138)

The above items are not allocated to individual segments as these are managed on an overall group basis.

(3) Revenues from Major Services

The Group's revenues from continuing operations from its major services for the three-month periods ended March 31, 2017 and 2018 are as follows. Revenues for the three-month period ended March 31, 2017 are presented using IAS18 as the Group uses the modified retrospective method in the adoption of IFRS15.

The difference in the amount of revenue from (2) Revenue and profit for the Group's operating segments are due to the exchange rate differences used in management accounting.

Revenues recognized at one time consist mainly of revenues from Friends services.

(In millions of yen)

	2017	2018
Core business		
Advertising		
Display advertising ⁽¹⁾	4,925	9,128
Account advertising ⁽²⁾	8,955	13,468
Portal advertising ⁽³⁾	2,644	2,575
Sub-total	<u>16,524</u>	<u>25,171</u>
Communication, content, and others		
Communication ⁽⁴⁾	8,067	7,415
Content ⁽⁵⁾	10,441	9,231
Others	668	864
Subtotal	<u>19,176</u>	<u>17,510</u>
Core business total	<u>35,700</u>	<u>42,681</u>
Strategic business		
Friends ⁽⁶⁾	2,643	3,390
Others ⁽⁷⁾	573	2,665
Strategic business total	<u>3,216</u>	<u>6,055</u>
Total	<u>38,916</u>	<u>48,736</u>

(1) Revenues from display advertising primarily consisted of fees from advertisement on services such as Timeline and LINE NEWS.

(2) Revenues from account advertising primarily consisted of fees from LINE Official Accounts, Sponsored Stickers and LINE Points.

(3) Revenues from portal advertising were mainly attributable to advertising revenue from livedoor and NAVER Matome.

(4) Revenues from communication were mainly attributable to sales of LINE Stickers and Creator Stickers.

(5) Revenues from content primarily consisted of sales of LINE GAMES's virtual items.

(6) Friends primarily consisted of revenues from sales of character goods.

(7) Others primarily consisted of revenues from LINE Mobile service.

Notes for going concern assumption

Not applicable.